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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2016-0179

REBUTTAL TESTIMONY

OF

RYAN J. MARTIN

ON

BEHALF OF

UNION ELECTRIC COMPANY d/b/a Ameren Missouri

St. Louis, Missouri
January 2017

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REBUTTAL TESTIMONY

OF

RYAN J. MARTIN

FILE NO. ER-2016-0179

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Ryan J. Martin. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom are you employed and in what capacity?

A. I am employed by Ameren Services Company ("Ameren Services"), a wholly-owned subsidiary of Ameren Corporation ("Ameren"), as Vice President and Treasurer. I also serve as Vice President and Treasurer of Union Electric Company d/b/a/ Ameren Missouri ("Ameren Missouri" or "Company"). Ameren Services provides various corporate support services to Ameren's subsidiaries, including Ameren Missouri, such as accounting, legal, financial, and treasury services.

Q. Are you the same Ryan J. Martin who filed direct testimony in this case?

A. Yes, I am.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is: (1) to respond to the Revenue Requirement Cost of Service Report ("Staff Report") submitted in this proceeding by the Missouri Public Service Commission ("Commission") Utility Services Division ("Staff") as it relates to Staff's recommended capital structure for the Company presented by Staff witness David Murray; and (2) to present Ameren Missouri's updated capital structure as of December 31, 2016, which I recommend for use in setting rates in this proceeding.

Q. Are you sponsoring any schedules in connection with your testimony?

A. Yes, I am sponsoring, and have attached to my rebuttal testimony, the following schedules, which have been prepared under my direction as of or for the twelve months ending December 31, 2016, as appropriate:

- Schedule RJM-R1 – Capital Structure/Weighted Average Cost of Capital
- Schedule RJM-R2 – Embedded Cost of Long-Term Debt
- Schedule RJM-R3 – Cost of Short-Term Debt
- Schedule RJM-R4 – Embedded Cost of Preferred Stock

III. PROPRIETY AND REASONABLENESS OF AMEREN MISSOURI'S CAPITAL STRUCTURE FOR RATEMAKING PURPOSES

Q. In the Staff Report, Mr. Murray suggests that Ameren Missouri's capital structure is inappropriate for ratemaking purposes, and that rates to be set in this proceeding should instead be based on parent company Ameren's modestly more leveraged consolidated capital structure. Do you agree?

A. I disagree. Ameren Missouri's actual capital structure is appropriate and reasonable for purposes of setting rates in this proceeding for the following primary reasons, each of which I will address more specifically later in my rebuttal testimony:

- Ameren Missouri’s overall financial profile, including its capital structure, is independently evaluated, developed, and managed in consideration of Ameren Missouri's risks, and specifically for purposes of maintaining Ameren Missouri’s financial health and integrity at a reasonable cost of capital.
- Ameren Missouri’s capital structure specifically and exclusively finances Ameren Missouri rate base, with parent common equity infusions sourced from actual third-party common equity raised by Ameren and long-term debt raised by Ameren Missouri and secured by Ameren Missouri's assets.
- The primary drivers of Ameren’s slightly more leveraged capital structure, including the 2013 divestiture of its merchant generation business and its disproportionate investment in electric transmission assets under FERC’s lower-risk ratemaking framework within Ameren Illinois and Ameren Transmission Company of Illinois (ATXI), have improved Ameren’s consolidated credit profile, on which Ameren Missouri’s S&P credit rating is based, and have had no negative impact on Ameren Missouri’s standalone credit profile, on which Ameren Missouri's Moody's credit rating is based.
- Ameren Missouri’s proposed common equity ratio for ratemaking purposes of 51.8% as of December 31, 2016, is consistent with common equity ratios maintained by its utility peers (albeit lower than the peer median) and unchanged from the 51.8% common equity ratio supported by Staff and most recently approved by the Commission in File No. ER-2014-0258.
- Ultimately, Ameren Missouri’s capital structure supports strong and stable investment grade credit ratings, which are consistent with peer ratings (albeit in the weaker half of the peer group) and allow Ameren Missouri to access debt capital at a competitive cost through various market cycles, to the benefit of Ameren Missouri’s customers. The arbitrary use of Ameren’s consolidated capital structure to set Ameren Missouri rates would weaken Ameren Missouri’s credit profile, including cash flows and key credit

> metrics, which would increase the likelihood of an Ameren Missouri credit rating downgrade. A downgrade would increase Ameren Missouri's cost of capital, which would be harmful to Ameren Missouri customers.

Please also see the testimony of Company witness Pauline M. Ahern for additional discussion of these and other factors supporting the use of Ameren Missouri's actual capital structure for setting rates in this proceeding.

Q. In the Staff Report, Mr. Murray states that Ameren's November 2015 issuance of $700 million of long-term debt and other management decisions "demonstrate an increase in the commingling of Ameren's financing activities for all of its companies, which supports the use of Ameren's consolidated capital structure for ratemaking." How do you respond?

A. Ameren's $700 million November 2015 financing represented no co-mingling of Ameren financing activities with Ameren Missouri financing activities and resulted in no co-mingling of funds. The proceeds of the financing were used specifically to re-pay Ameren commercial paper borrowings that funded the maturity of Ameren's $425 million note in May 2014 and investment by Ameren in ATXI.

Q. Is Ameren Missouri's financial and credit profile independently managed?

A. Yes. Ameren Missouri's financial and credit profile, including its capital structure, is independently managed in a way that supports maintenance of Ameren Missouri's financial strength and integrity at a reasonable cost. Evaluation and management of the appropriate Ameren Missouri capital structure over time involves careful consideration of Ameren Missouri-specific business and financial risks, including key credit metrics necessary to support strong and stable investment grade credit ratings.

While Ameren owns other regulated businesses and engages in financing activities unrelated to Ameren Missouri in support of those businesses, Ameren Missouri's capital structure is specifically managed to ensure ongoing financial strength and maintenance of a credit profile that affords Ameren Missouri access to necessary capital at a competitive cost, to the benefit of Ameren Missouri customers.

Q. Can you specifically identify the sources of Ameren Missouri's independently-managed capital?

A. Ameren Missouri's entire long-term debt balance consists of long-term debt marketed and issued *by Ameren Missouri* to third party investors and secured by *Ameren Missouri* assets. Ameren Missouri's entire preferred stock balance includes preferred stock marketed and issued, again, by Ameren Missouri to third-party investors. Ameren Missouri's common equity balance includes common equity contributions from Ameren and retained Ameren Missouri earnings. Ameren's common equity infusions have been specifically financed with common equity raised by Ameren from *third-party investors*. All of Ameren Missouri's capital supports Ameren Missouri's rate base, and no portion of Ameren Missouri's rate base is supported by capital outside of Ameren Missouri.

Q. Have any Ameren common equity infusions into Ameren Missouri ever been funded with proceeds of Ameren short-term or long-term debt issuances?

A. No. As noted above, all Ameren common equity infusions have been specifically funded by Ameren common equity issuances to third-party investors. The most recent infusion of common equity into Ameren Missouri by Ameren, in September 2009 and in the amount of $436 million, was sourced directly from an external Ameren common stock offering in September 2009. The only other cash transfers from Ameren to Ameren Missouri since September 2009 have been non-discretionary tax-related contributions, including the $38 million infusion in 2016 noted by Mr. Murray in the Staff Report. These equity contributions are a function of a consolidated tax-sharing agreement among Ameren and its subsidiaries, and the contributions are typically promptly returned by Ameren Missouri to Ameren in the form of a dividend, such that there is no net impact on Ameren Missouri's equity balance.

Q. Are any of Ameren Missouri's assets pledged to support obligations of Ameren or any of its subsidiaries?

A. No.

Q. Does Ameren Missouri rely on Ameren to support any Ameren Missouri long-term debt obligations?

A. No. To summarize the discussion thus far:

- Ameren Missouri's capital structure is independently managed;
- Ameren Missouri issues its own long-term debt that is secured by Ameren Missouri assets;
- Equity infusions from Ameren are sourced from Ameren market equity issuances to third-party equity investors (and not debt);
- Ameren Missouri's capital structure finances all of, and only, Ameren Missouri assets;
- Ameren Missouri assets do not support Ameren obligations; and
- Ameren Missouri does not rely on Ameren to support its long-term debt obligations.

Each of these factors supports the use of Ameren Missouri's actual capital structure for the purpose of setting rates in this proceeding.

Q. In the Staff Report, Mr. Murray cites a lower consolidated common equity ratio maintained by Ameren as a factor supporting the use of Ameren's consolidated capital structure to set rates for Ameren Missouri in this proceeding. Please comment on the primary drivers of the difference between Ameren Missouri's capital structure and Ameren's consolidated capital structure.

A. As noted above, Ameren Missouri's capital structure is specifically and independently managed, based on consideration of Ameren Missouri-specific business and financial risks, to support ongoing Ameren Missouri financial health and integrity at a reasonable capital cost. In addition to Ameren Missouri, Ameren owns other regulated businesses, principally Ameren Illinois and ATXI, and Ameren's consolidated capital structure is influenced by the respective capital structures of Ameren's regulated subsidiaries. The capital structure of each of those regulated subsidiaries, like Ameren Missouri's capital structure, is independently managed based on relevant business and financial risks applicable to those entities. Given the higher-risk nature of Ameren Missouri's vertically-integrated business relative to the risk of Ameren's other subsidiaries (principally ATXI and Ameren Illinois, which operate transmission and delivery-only regulated businesses), it stands to reason that Ameren Missouri would maintain a common equity ratio stronger than the Ameren consolidated common equity ratio.

With respect to the specific difference in the common equity ratios of Ameren Missouri and consolidated Ameren, there are three primary drivers. One is the 50%

common equity ratio maintained by Ameren Illinois, whose total capitalization represents approximately 38% of Ameren’s consolidated capitalization. The lower common equity ratio reflects Ameren Illinois’ lower-risk, diversified regulated electric transmission and delivery business and gas delivery business. Like Ameren Missouri’s capital structure, Ameren Illinois’ capital structure is independently managed, sourced, and supported.

The capital structure difference also reflects the impact on Ameren’s consolidated capital structure of the 2013 divestiture of Ameren’s merchant generation business. In connection with the divestiture, Ameren recognized a $2.6 billion non-cash loss, which reduced Ameren's common equity balance by an equivalent amount. Also, as part of the divestiture, $425 million of Ameren’s long-term debt, the proceeds of which supported Ameren’s merchant generation business, was retained by Ameren. Despite the loss, the retained debt, and the resulting Ameren consolidated common equity ratio reduction, the divestiture immediately improved Ameren’s consolidated credit profile and triggered credit rating upgrades by both Moody’s and S&P.

Finally, Ameren’s lower consolidated common equity ratio reflects the use of Ameren short-term and long-term debt to fund investment in Ameren’s developing independent electric transmission business, ATXI. Ameren’s investment in ATXI (capital infusions and ATXI retained earnings) is approximately $850 million as of December 31, 2016, which represents only approximately 6% of total Ameren consolidated capital as of such date.

As noted earlier, the proceeds of Ameren's November $700 million long-term debt financing were used to re-pay Ameren commercial paper borrowings that funded the maturity of Ameren's $425 million note in May 2014 and investment by Ameren in ATXI.

Q. In the Staff Report, Mr. Murray states that "one of the most glaring reasons" supporting the use of Ameren's consolidated capital structure for Ameren Missouri ratemaking is "the fact that Ameren Missouri's S&P credit rating is based on Ameren's consolidated capital structure." How do you respond?

A. There is no evidence supporting Mr. Murray's assertion that Ameren Missouri's S&P rating is based on Ameren's consolidated capital structure. In fact, in S&P's December 6, 2016, Ameren Corp. credit report, the consequence of Ameren's consolidated capital structure on the application of S&P's rating methodology is characterized as "Neutral (no impact)."

It is true that S&P utilizes a family approach to assigning ratings, under which a rated parent and its core rated operating subsidiaries typically share the same corporate credit rating. And while Ameren and its rated subsidiaries (Ameren Missouri and Ameren Illinois) currently share the same BBB+ corporate credit rating under this family rating approach, S&P articulates clearly in its December 6, 2016, Ameren rating report that such rating is the function of the underlying business and financial risk profiles of Ameren's regulated utilities. Please see Ms. Ahern's testimony for further discussion of this matter.

Q. Are you aware of any evidence in rating agency reports suggesting that Ameren Corporation's unrelated financing activities, including its $700 million of long-term debt, has any negative impact on Ameren Missouri's credit ratings?

A. No. The rating agencies have expressed no concerns about any negative impact of Ameren financing activities on Ameren Missouri's credit profile. This is likely the case, in part, because such financing activities have supported a transaction (Ameren's 2013 divestiture of its merchant generation business) and a business (ATXI) that has improved Ameren's consolidated credit profile. In its March 10, 2016, Ameren credit opinion, Moody's specifically characterizes Ameren's $700 million of long-term debt as "manageable." S&P's December 6, 2016, Ameren credit report raises no concern with, nor addresses at all, parent-level debt. It does note, however, that Ameren's strategic decision to invest disproportionately in lower-risk, FERC-regulated electric-transmission assets, a driver of parent debt and Ameren's modestly more leveraged capital structure, bolsters regulatory diversity and will gradually strengthen the company's business risk profile. Given S&P's family rating approach, this improvement in the consolidated business risk profile will benefit Ameren Missouri.

Q. How does Ameren Missouri's independently-developed Moody's issuer rating compare to Ameren Missouri's S&P rating, developed using S&P's family rating approach.

A. While S&P employs a family rating methodology to assign ratings to Ameren and its rated subsidiaries (including Ameren Missouri), Moody's develops its rating for Ameren Missouri independently based on specific evaluation of Ameren Missouri's credit profile. While Moody's and S&P use different ratings scales, Ameren Missouri's independently-developed Baa1 Moody's issuer rating is acknowledged by the financial community to be equivalent to Ameren Missouri's BBB+ S&P corporate credit rating. The equivalent ratings suggest that Ameren Missouri's S&P credit rating is not adversely impacted by its relationship with Ameren or by Ameren's unrelated financing activities.

Note also that Ameren Illinois' independently-developed Moody's issuer rating of A3 is one notch stronger than Ameren Missouri's independently-developed Moody's issuer rating of Baa1, indicating a positive Ameren Illinois impact on Ameren's consolidated credit profile. ATXI is not rated by the credit rating agencies.

Q. In the Staff Report, Mr. Murray states "it is clear that Ameren is increasingly managing its cash flows and liquidity on a consolidated basis for the best interest of Ameren rather than Ameren Missouri," citing as an example a 2014 increase in liquidity available to Ameren within the $1 billion credit facility that it shares with Ameren Missouri. How do you respond?

A. First, in connection with the overall management of Ameren Missouri's credit profile, Ameren Missouri short-term and long-term forecasted cash flows, credit metrics, and liquidity needs are calculated, reviewed, and evaluated on a stand-alone basis. We are committed to maintaining the financial health and integrity of Ameren Missouri at all times. That includes supporting credit ratings that facilitate access to long-term capital as needed and maintaining credit arrangements that provide Ameren Missouri with ongoing access to adequate liquidity.

As Mr. Murray notes in the Staff Report, Ameren and Ameren Missouri share a $1 billion credit facility, under which Ameren Missouri may access up to $800 million of liquidity, and Ameren may access up to $700 million of liquidity. Structuring the facility in this manner allows us to effectively manage the cash flow needs of both companies through various reasonably predictable cycles at an efficient cost. While Ameren's access to liquidity under the facility was increased from $500 million to $700 million, the change had no adverse impact on the adequacy of Ameren Missouri's liquidity profile, which is monitored daily. However, the change did reduce the cost of the credit facility to Ameren Missouri customers, as a lesser portion of the total cost was allocated to Ameren Missouri to align with Ameren's greater borrowing capacity. Note that Ameren and Ameren Illinois have a similar liquidity-sharing arrangement.

The credit facility primarily supports short-term borrowings under Ameren and Ameren Missouri's commercial paper programs, with outstanding commercial paper borrowings reducing credit available under the credit facility. As necessary to increase available liquidity, short-term commercial paper borrowings may be refinanced in the long-term market. Examples of this include the November 2015 $700 million Ameren long-term debt financing, the proceeds of which were used to re-pay Ameren commercial paper borrowings, and the June 2016 $150 million Ameren Missouri long-term debt financing, the proceeds of which were used to re-pay Ameren Missouri commercial paper borrowings. Maintenance of strong, investment grade credit ratings affords Ameren and Ameren Missouri ongoing access to debt capital markets, allowing Ameren and Ameren Missouri to refinance commercial paper borrowings and strengthen liquidity, as deemed necessary.

Also, the credit agreement includes a feature that would allow total credit available under the agreement to be increased from $1 billion to $1.2 billion. To date, such an increase has not been necessary, as we have been able to effectively and efficiently manage the respective liquidity needs of both Ameren Missouri and Ameren under the $1 billion limit, but the additional credit is available if needed.

Note that Ameren Missouri also has access to short-term loans, up to its FERC-authorized total short-term debt limit of $1 billion, by virtue of its participation in Ameren's regulated money pool.

Q. Considering all available liquidity sources, do you believe Ameren Missouri's liquidity is adequate?

A. Yes.

Q. Have the rating agencies opined on the adequacy of Ameren Missouri's liquidity?

A. Yes. The rating agencies are aware of Ameren Missouri's liquidity sources, including its credit facility-sharing arrangement with Ameren, and have specifically affirmed the adequacy of Ameren Missouri's liquidity in their credit reports.

Q. Is there any evidence supporting Mr. Murray's implication that the increase in Ameren's credit facility borrowing sublimit weakened Ameren Missouri liquidity or broader credit profile?

A. No.

Q. In the Staff Report, Mr. Murray states that Ameren's management of Ameren Missouri capital structure seems to be "primarily driven by the common equity ratios it targets for ratemaking treatment." Is this true?

A. To the extent Mr. Murray is suggesting that Ameren Missouri's capital structure is managed with the primary intent of maximizing rates, the answer is no.

As noted earlier, Ameren Missouri's common equity ratio is independently managed to support financial strength and stability, including strong credit metrics and credit ratings, at a reasonable cost of capital. Ultimately, Ameren Missouri's common equity ratio is a function of our evaluation of key Ameren Missouri business and financial risks, and it is managed to a level we believe will support maintenance of strong credit metrics and strong, stable investment grade credit ratings over time at a reasonable cost of capital.

Q. In the Staff Report, Mr. Murray suggests that a 50% ratemaking common equity ratio would be reasonable for setting rates for Ameren Missouri because a 50% ratemaking common equity ratio has been accepted by Ameren as reasonable for setting rates for Ameren Illinois. How do you respond?

A. Staff's recommended common equity ratio is not appropriate for Ameren Missouri. Ameren manages the respective capital structures for Ameren Missouri and Ameren Illinois independently, based on, among other things, relative business risk. In the case of Ameren Illinois, maintenance of a lower common equity ratio is reasonable and appropriate based on a number of factors, including, notably, the lower inherent business risk associated with Ameren Illinois' transmission and delivery only business and the lower financial risk resulting from more constructive, predictable, and credit-supportive ratemaking frameworks for Ameren Illinois' electric delivery business (formulaic ratemaking, with a revenue decoupling mechanism), electric transmission business (formulaic ratemaking), and gas delivery business (forward test year, with a decoupling mechanism and an interim rate adjustment mechanism for qualifying rate base additions). In contrast, Ameren Missouri's ownership and operation of generating assets, including a nuclear plant, results in a higher degree of operating risk, and the Missouri ratemaking framework, which utilizes a historical test year approach with limited riders and trackers, exposes Ameren Missouri to the effects of regulatory lag and results in a higher degree of financial risk. The lower overall risk profile of Ameren Illinois relative to Ameren Missouri is evident in Ameren Illinois' one-notch stronger Moody's issuer rating of A3. Again, Moody's rating for Ameren Illinois is independently developed based on Ameren Illinois' credit profile, and Moody's rating for Ameren Missouri is independently developed based on Ameren Missouri's credit profile.

Q. Is there any evidence that rating agencies view the Missouri regulatory environment as less supportive than the regulatory environments of other states?

A. Yes, in its November 5, 2015, report on Missouri electric utility regulation, Moody's notes the following:

> "There are several states, such as New Mexico, Kansas, Missouri, and Montana, that we view to be less credit-supportive than the majority of other states. Although the regulatory environment for electric utilities in Missouri has improved in recent years by implementing a fuel adjustment clause, for example, we continue to observe greater regulatory lag compared with most utilities in most other states that we consider credit supportive."

As cited in the report, Moody's believes the higher level of regulatory lag to be a function of (1) limited opportunities for interim rate adjustments, (2) the use of a historical test year that contributes to longer lag times, and (3) allowed returns on equity that, historically, have been lower than the industry average.

Also, in its March 10, 2016, Ameren credit report, Moody's describes the regulatory environment in Illinois as "credit supportive" and characterizes the regulatory environment in Missouri less-favorably as "challenging but stable."

Q. How does Ameren Missouri's proposed common equity ratio as of December 31, 2016, of 51.8% compare to common equity ratios maintained by comparable utilities?

A. Ameren Missouri's common equity ratio is consistent with common equity ratios maintained by peer companies. As noted in Ms. Ahern's testimony, the median common equity ratio of the peer group identified by Company witness Robert B. Hevert is 52.6%, and the median common equity ratio of the larger peer group identified by Staff witness Randall R. Woolridge is 52.3%.

Q. Does this consistency support the reasonableness of Ameren Missouri's proposed capital structure for purposes of setting rates in this proceeding?

A. Yes. I'd call specific attention to a citation from Charles Phillip's The Regulation of Public Utilities – Theory and Practice in Ms. Ahern's testimony, which suggests "a hypothetical capital structure is used only where a utility's actual capitalization is clearly out of line with those of other utilities in its industry or where a utility is diversified." Ameren Missouri meets neither of these criteria: it is not diversified into non-regulated activities or businesss, and its capital structure is in line with those of its peers.

Q. How does Ameren Missouri's proposed common equity ratio as of December 31, 2016, of 51.8% compare with the common equity ratio recommended by Staff and most recently approved by the Commission in File No. ER-2014-0258?

A. Ameren Missouri's proposed common equity ratio as of December 31, 2016, of 51.8% is consistent with the 51.8% common equity ratio recommended by Staff and authorized by the Commission in File No. ER-2014-0258.

Q. How does Ameren Missouri's independently developed Baa1 Moody's issuer rating compare to the Moody's issuer ratings of comparable utilities?

A. Among the 33 utilities included in the peer group identified by Mr. Hevert that are rated by Moody's, 10 utilities (including Ameren Missouri) - or 30% of the peer group - have a Moody's issuer rating of Baa1, and 10 utilities have a one-notch stronger Moody's issuer rating of A3. In total, approximately 60% of the peer group is rated Baa1 or A3. I believe this affirms the reasonableness of Ameren Missouri's management of its credit profile, including its capital structure and liquidity. It also highlights the importance of Ameren Missouri maintaining its Baa1 rating, as only 15% of the peer group is rated weaker than Baa1, and a relatively weak credit rating would have a direct adverse impact on debt and credit cost and access. While Ameren's Baa1 is consistent with the peer group, its rating is in the weaker half of the group, a factor that does not support Mr. Murray's implication that Ameren Missouri is under-levered and should decrease its common equity ratio.

Ultimately, capital structure impacts key credit metrics that are evaluated by rating agencies as part of their rating processes. Credit ratings, in turn, are the most visible and trusted indication of an issuer's creditworthiness, and credit ratings have the most direct and measurable impact on Ameren Missouri's cost of debt and credit and access to debt and credit markets. Ameren Missouri's peer-consistent Moody's credit rating affirms that Ameren Missouri has managed its credit profile in a reasonable manner and has achieved a reasonable balance between financial strength and stability and cost of capital. Perhaps most importantly, Ameren's peer-consistent credit rating allows Ameren Missouri to effectively compete with peer utilities for capital. Its rating facilitates Ameren Missouri's access to debt and credit under varying market conditions at a market-competitive cost, to the benefit of Ameren Missouri customers.

Q. Can you offer any evidence supporting your assertion that Ameren Missouri's credit ratings afford Ameren Missouri access to necessary capital at competitive rates, even during volatile market conditions?

A. Yes. The most recent Ameren Missouri new bond issue was executed three days before the vote on the United Kingdom Economic Union Membership Referendum (commonly known as "BREXIT"). Despite highly volatile market conditions that resulted in inconsistent demand for new debt issues, Ameren Missouri generated approximately $750 million of investor orders for the $150 million deal. The size and quality of the order book allowed Ameren Missouri to price the deal competitively relative to market indications of fair value and allocate the bonds to high-quality, long-term investors, to the benefit of Ameren Missouri customers.

Q. What would be the consequence on Ameren Missouri's credit profile and credit ratings of using Ameren's consolidated common equity ratio to set rates in this proceeding, as suggested by Mr. Murray?

A. Using Ameren's consolidated common equity ratio to set rates in this proceeding would weaken Ameren Missouri's credit metrics, including key metrics evaluated by rating agencies for purposes of assigning credit ratings. It's difficult to predict the ultimate impact of weaker credit metrics on credit ratings, as ratings are a function of a number of qualitative and quantitative factors, but weaker metrics would increase financial risk and increase the likelihood of a rating downgrade. Additionally, rejection by the Commission of Ameren Missouri's proposed ratemaking capital structure absent compelling evidence that the proposed capital structure is inappropriate or unreasonable could deepen concerns regarding the supportiveness of the Missouri regulatory environment, which would pressure Ameren Missouri's credit ratings.

Q. In the Staff Report, Mr. Murray questions the propriety of other specific recent Ameren Missouri financing decisions, including long-term debt issuances and dividend payments. How do you respond?

A. All specific Ameren Missouri financing decisions support maintenance of a capital structure that we believe is appropriate and reasonable for Ameren Missouri based on evaluation of key business and financial risks, a capital structure that supports maintenance of adequate financial strength and stability at a reasonable capital cost. While the merit and timing of individual financing transactions may be reasonably debated, I believe the reasonableness and propriety of the resulting capital structure is the strongest indicator of the reasonableness and propriety of the underlying transactions. For all the reasons discussed above and in my direct testimony, I believe Ameren Missouri's actual capital structure is appropriate and reasonable.

Of course, in accordance with its normal oversight responsibilities, Staff reviews and provides recommendations with respect to all proposed Ameren Missouri long-term debt issuances, including Ameren Missouri's $150 million June 2016 financing, the amount of which Mr. Murray challenges in the Staff Report.

Q. Did Mr. Murray support Ameren Missouri's request for authorization of the $150 million financing?

A. Yes. Mr. Murray recommended approval of Ameren Missouri's request, including the amount of the financing.

Q. Please summarize why the use of Ameren Missouri's capital structure, rather than Ameren's consolidated capital structure, is appropriate and reasonable for setting rates in this proceeding.

A. As I've noted, Ameren Missouri's capital structure is independently managed and supported and sourced from third-party investors. Its capital structure supports strong, peer-comparable investment grade credit ratings that afford Ameren Missouri ongoing access to necessary debt capital at a competitive cost. The primary drivers of Ameren's slightly more leveraged capital structure, including the divestiture of its merchant generation business and disproportionate investment in electric transmission assets under FERC's lower-risk ratemaking framework, have improved Ameren's consolidated credit profile, on which Ameren Missouri's S&P credit rating is based, and have had no negative impact on Ameren Missouri's credit profile, on which Ameren Missouri's Moody's credit rating is based. And, finally, the reasonableness of Ameren Missouri's proposed capital structure is affirmed by the consistency of its common equity ratio with those of its utility peers and the Ameren Missouri common equity ratio most recently approved by the Commission File No. ER-2014-0258.

IV. CAPITAL STRUCTURE AS OF DECEMBER 31, 2016

Q. What was Ameren Missouri's actual capital structure as of the recommended true-up date of December 31, 2016?

A. The table below shows Ameren Missouri's actual capital structure as of December 31, 2016:

		Balance	%
Long-term debt	$	3,647,063,408	47.1%
Short-term debt	$	-	0.0%
Preferred stock	$	81,827,509	1.1%
Common equity	$	4,009,795,948	51.8%
Total	$	7,738,686,865	100.0%

Q. How does Ameren Missouri's updated capital structure as of December 31, 2016, compare to the capital structure for Ameren Missouri as of March 31, 2016, and as presented in direct testimony?

A. A comparison of Ameren Missouri's updated capital structure as of December 31, 2016, to the capital structure for Ameren Missouri as of March 31, 2016, and as presented in direct testimony is as follows:

	As of December 31, 2016			As of March 31, 2016		
		Balance	%		Balance	%
Long-term debt	$	3,647,063,408	47.1%	$	3,495,023,533	46.9%
Short-term debt	$	-	0.0%	$	-	0.0%
Preferred stock	$	81,827,509	1.1%	$	81,827,509	1.1%
Common equity	$	4,009,795,948	51.8%	$	3,875,406,203	52.0%
Total	$	7,738,686,865	100.0%	$	7,452,257,245	100.0%

The approximately $152 million increase in long-term debt from March 31, 2016, to December 31, 2016, is attributable primarily to the issuance of $150 million of senior secured notes in June 2016. The approximate $134 million increase in common equity from March 31, 2016, to December 31, 2016, is primarily attributable to net income generated during the period, net of dividends paid.

Q. What capital structure are you recommending in this case?

A. I recommend that Ameren Missouri's actual capital structure as of the true-up date of December 31, 2016, be used in this case.

Q. Is Ameren Missouri's stand-alone capital structure reasonable?

A. Yes. For reasons addressed above and in my direct testimony, Ameren Missouri's actual capital structure is appropriate and reasonable for purposes of setting rates in this proceeding.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase Its Annual Revenues for Electric Service.	)))	File No. ER-2016-0179

AFFIDAVIT OF RYAN J. MARTIN

STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

Ryan J. Martin, being first duly sworn on his oath, states:

1. My name is Ryan J. Martin. I am employed by Union Electric Company d/b/a Ameren Missouri as Vice President and Treasurer.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company, d/b/a Ameren Missouri, consisting of 22 pages and Schedule(s) RJM-R1 thru R4, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Ryan J. Martin

Subscribed and sworn to before me this 17th day of January, 2017.

Geri A. Best
Notary Public

My commission expires: 2/15/18

GERI A. BEST
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: February 15, 2018
Commission Number 14839811

Union Electric Company d/b/a Ameren Missouri
Weighted Average Cost of Capital

at 12/31/2016:

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL	COST	WEIGHTED COST
Long-Term Debt	$3,647,063,408	47.128%	5.426%	2.557%
Short-Term Debt	$0	0.000%	0.000%	0.000%
Preferred Stock	$81,827,509	1.057%	4.180%	0.044%
Common Equity	$4,009,795,948	51.815%	9.900%	5.130%
TOTAL	**$7,738,686,865**	**100.000%**		**7.731%**

Union Electric Company d/b/a Ameren Missouri
Embedded Cost of Long-Term Debt

at December 31, 2016

SERIES	COUPON (a)	ISSUED	MATURITY	PRINCIPAL	FACE AMOUNT OUTSTANDING	UNAMORTIZED BALANCES DISC/(PREM)	ISSUE EXP.	LOSS	CARRYING VALUE	ANNUALIZED COUPON INT.(b)	ANNUALIZED AMORTIZATION DISC/(PREM)	ISSUE EXP	LOSS	ANNUALIZED EXPENSE
C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	C11	C12	C13	C14	C15
Senior Secured Notes	6.400%	15-Jun-07	15-Jun-17	$425,000,000	$425,000,000	$18,696	$157,176			$27,200,000	$37,392	$314,352		
Senior Secured Notes	6.000%	08-Apr-08	01-Apr-18	$250,000,000	$178,520,000	$67,380	$169,365			$10,711,200	$53,904	$135,492		
Senior Secured Notes	5.100%	28-Jul-03	01-Aug-18	$200,000,000	$198,657,000	$11,115	$180,595			$10,131,507	$7,020	$114,060		
Senior Secured Notes	6.700%	19-Jun-08	01-Feb-19	$450,000,000	$329,283,000	$189,900	$488,500			$22,061,961	$91,152	$234,480		
Senior Secured Notes	5.100%	23-Sep-04	01-Oct-19	$300,000,000	$244,311,000	$19,239	$364,452			$12,459,861	$6,996	$132,528		
Senior Secured Notes	5.000%	27-Jan-05	01-Feb-20	$85,000,000	$85,000,000	$138,380	$146,927			$4,250,000	$44,880	$47,652		
Senior Secured Notes	3.500%	04-Apr-14	15-Apr-24	$350,000,000	$350,000,000	$45,675	$2,107,836			$12,250,000	$6,300	$290,736		
First Mortgage Bonds	5.450%	15-Oct-93	01-Oct-28	$44,000,000	$5,000	$13	$24			$273	$1	$2		
Senior Secured Notes	5.500%	10-Mar-03	15-Mar-34	$184,000,000	$184,000,000	$1,140,570	$1,001,052			$10,120,000	$66,120	$58,032		
Senior Secured Notes	5.300%	21-Jul-05	01-Aug-37	$300,000,000	$300,000,000	$654,056	$1,917,955			$15,900,000	$31,776	$93,180		
Senior Secured Notes	8.450%	20-Mar-09	15-Mar-39	$350,000,000	$350,000,000	$864,279	$2,578,419			$29,575,000	$38,844	$115,884		
Senior Secured Notes	3.900%	11-Sep-12	15-Sep-42	$485,000,000	$485,000,000	$2,189,574	$4,147,707			$18,915,000	$85,032	$161,076		
Senior Secured Notes	3.650%	06-Apr-15	15-Apr-45	$250,000,000	$250,000,000	$555,621	$2,632,674			$9,125,000	$19,668	$93,192		
Senior Secured Notes	3.650%	23-Jun-16	15-Apr-45	$150,000,000	$150,000,000	$735,291	$1,732,290			$5,475,000	$26,028	$61,320		
Environmental Improvement, Series 1992	1.528%	01-Dec-92	01-Dec-22	$47,500,000	$47,500,000		$129,007			$801,800		$21,804		
Environmental Improvement, Series 1998 ABC	1.548%	04-Sep-98	01-Sep-33	$160,000,000	$160,000,000		$924,200			$2,812,000		$55,452		
TOTAL LONG-TERM DEBT				**$4,030,500,000**	**$3,737,276,000**	**$6,629,789**	**$18,678,179**	**$64,904,625**	**$3,647,063,408**	**$191,788,602**	**$515,113**	**$1,929,242**	**$3,652,932**	**$197,885,889**

Carrying Value = Face Amount Outstanding less Unamortized Discount, Issuance Expenses, and Loss on Reacquired Debt
C10 = C6 - C7 - C8 - C9
Annualized Expense = Annual Coupon Interest plus Annual Amortization of Discount, Issuance Expenses, and Loss on Reacquired Debt
C15 = C11 + C12 + C13 + C14
Embedded Cost = Annualized Expense divided by Carrying Value
C16 = C15 / C10

(a) Coupon rate for variable rate auction securities reflects prevailing rates as of 12/31/16 and includes ongoing broker dealer fees.
(b) Annualized coupon interest (C11) includes annual bond insurance premiums, where applicable.

EMBEDDED COST C16
5.426%

Union Electric Company d/b/a Ameren Missouri
Cost of Short-term Debt

MONTH C1	BALANCE OF SHORT-TERM DEBT (a) C2	BALANCE OF TOTAL CWIP C3	BALANCE OF CWIP ACCRUING AFUDC C4	NET AMOUNT OUTSTANDING C5	INTEREST RATE C6
January 2016	$0	$717,268,993	$806,857,428	$0	--
February	$73,800,000	$715,750,082	$671,076,685	$0	0.830%
March	$164,800,000	$536,013,068	$603,990,562	$0	0.680%
April	$194,700,000	$525,212,937	$542,822,037	$0	0.790%
May	$198,500,000	$444,931,106	$510,580,081	$0	0.700%
June	$76,500,000	$464,332,100	$459,741,399	$0	0.650%
July	$0	$470,390,236	$478,078,527	$0	--
August	$0	$502,261,459	$497,709,884	$0	--
September	$0	$540,816,181	$534,576,382	$0	--
October	$0	$578,718,268	$570,407,158	$0	--
November	$0	$528,680,344	$601,894,846	$0	--
December	$0	$536,373,260	$558,722,146	$0	--
AVERAGE	**$59,025,000**	**$546,729,003**	**$569,704,761**	**$0**	

C5 Net Amount Outstanding = Balance of Short-Term Debt less Balance of CWIP Accruing AFUDC
C5 = C2 - C4

(a) Short-term debt amounts are net of cash and short-term investments. Negative amounts are excluded.

- Denotes estimate

Union Electric Company d/b/a Ameren Missouri
Embedded Cost of Preferred Stock

at December 31, 2016

SERIES, TYPE, PAR C1	DIVIDEND C2	ISSUED C3	MATURITY C4	SHARES OUTSTANDING C5	PAR ISSUED/ OUTSTANDING C6	PREMIUM C7	ISSUANCE EXPENSE/DISCOUNT C8	NET PROCEEDS C9	ANNUAL DIVIDEND C10	EMBEDDED COST C11
$3.50 Series, Perpetual, $100 par	$3.500	01-May-46	-	130,000	$13,000,000	($910,000)	$252,772	$13,657,228	$455,000	
$3.70 Series, Perpetual, $100 par	$3.700	01-Oct-45	-	40,000	$4,000,000	($70,000)	$69,396	$4,000,604	$148,000	
$4.00 Series, Perpetual, $100 par	$4.000	01-Nov-49	-	150,000	$15,000,000	($384,000)	$326,896	$15,057,104	$600,000	
$4.30 Series, Perpetual, $100 par	$4.300	01-Jul-46	-	40,000	$4,000,000			$4,000,000	$172,000	
$4.50 Series, Perpetual, $100 par	$4.500	01-May-41	-	213,595	$21,359,500	($825,000)	$440,294	$21,744,206	$961,178	
$4.56 Series, Perpetual, $100 par	$4.560	01-Nov-63	-	200,000	$20,000,000	($266,000)	$297,633	$19,968,367	$912,000	
$4.75 Series, Perpetual, $100 par	$4.750	01-Oct-49	-	20,000	$2,000,000			$2,000,000	$95,000	
$5.50 Series, Perpetual, $100 par	$5.500	01-Oct-41	-	14,000	$1,400,000			$1,400,000	$77,000	
TOTAL PREFERRED STOCK					**$80,759,500**	**($2,455,000)**	**$1,386,991**	**$81,827,509**	**$3,420,178**	**4.180%**

issuance expenses, discount/premium, and any loss incurred in acquiring/redeeming prior series are not amortized due to the perpetual nature of the company's preferred stock

Net Proceeds = Par Value Outstanding plus Premium less Issuance Expense and Discount

C9 = C6 + C7 - C8

Embedded Cost = Annual Dividend divided by Net Proceeds

C11 = C10 / C9